

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

January 16, 2002

The Capital Projects and Bond Oversight Committee met on Wednesday, January 16, 2002, at 9:00 AM, in Room 111 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chair; Senators Tom Buford and Bob Jackson; Representatives Bob Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the committee: Ken Clevidence, University of Kentucky; Bill Hintze, Governor's Office for Policy and Management; Roger Recktenwald, Kentucky Infrastructure Authority; and Armond Russ, Jim Abbott, and Don Mullis, Finance and Administration Cabinet.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Senator Jackson made a motion to approve the minutes of the December 18, 2001 meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon called on Mary Lynn Collins, Committee Staff Administrator, to review various correspondence and information items included in members' folders. Among the items she reviewed were two pieces of follow-up correspondence relating to issues discussed at the committee's December meeting, correspondence from Western Kentucky University relating to student athletic fees and the Hilltopper Athletic Foundation, correspondence from Warren Nash, Cabinet for Economic Development, regarding an Economic Development Bond (EDB) grant presented to the committee in December, and correspondence from Eric Shaffer, Director of Capital Construction, Kentucky Community and Technical College System, in response to a question raised at the committee's December meeting. Ms. Collins said also included in folders were information items regarding the second round of FY 2001/02 budget reductions, revenue estimates prepared by the Consensus Forecasting Group, and quarterly construction reports.

Chairman Haydon called to the members' attention a staff-prepared summary of bills introduced this session that relate to the committee's jurisdiction. He noted that four of the bills: House Bills 286, 287, 288, and 289 are based on recommendations by the Capital Planning Advisory Board (CPAB) and sponsored by the Board's Chair, Representative Perry Clark. He reminded members that at last month's meeting, Representative Clark had presented to the committee the CPAB's 2002-2008 Statewide Capital Improvements Plan and had discussed those bills. He suggested that the House members might want to review those bills and consider co-sponsorship of them.

In response to a question from Senator Leeper, Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management, said the Consensus Forecasting Group will not meet again until May.

Chairman Haydon introduced Mr. Ken Clevidence, Vice President for Fiscal Affairs, University of Kentucky (UK), to discuss a project report. Mr. Clevidence reported a proposed \$350,000 privately-funded scope increase for the Women's Basketball Office Renovation project. He indicated that the project was authorized by the 2000 General Assembly at a scope of \$550,000, but the estimate at that time was based on only a cursory review of the project. The university has since identified unanticipated needs, including an HVAC replacement, and concluded that additional funds are required.

Senator Buford made a motion to approve the project scope increase. The motion was seconded by Senator Jackson and approved by voice vote. The revised project scope is \$900,000.

Mr. Jim Abbott, Director, Division of Real Properties, reported a lease renewal report for the Department of Corrections (PR-3086) in Fayette County. He indicated that the lease is at 273-275 West Main Street and its annual cost is \$116,908. Under an emergency action last June, the rate for the lease was increased from \$9.60 to \$10.66 per square foot. At the same time, the Department went through a competitive bidding process, and based on the results of this effort, they propose to renew the lease at the current location at the rate of \$10.66 per square foot for a one-year term.

Senator Leeper asked why this lease has such a short leasing term. Mr. Abbott said the Department of Corrections has been at this location for 16 years. He said because the property is owned by a trust at Bank One Lexington, the trust consistently leases the property for only one-year terms. However, he said historically, the trust has renewed the lease annually at the same terms and conditions for a four or five year period, and the Department does not anticipate a request by the trust for another rate increase in the next few years.

Senator Jackson made a motion to approve lease contract PR-3086. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Abbott next reported a temporary emergency lease renewal for the Workforce Development Cabinet, Department of Vocational Rehabilitation (PR-2834) at 1035 Industry Road in Fayette County. The annual cost of the lease is \$53,836. This lease is being renewed temporarily until the agency's newly leased offices at East Main Street are ready. Chairman Haydon indicated that because the lease is an emergency one, no additional action is required.

Chairman Haydon then asked Mr. Bill Hintze, Deputy State Budget Director, and Commissioner Armond Russ, Department for Facilities Management, to discuss the project report submitted by the Finance and Administration Cabinet.

Mr. Hintze indicated that the Finance Cabinet only had one project to report today. He reported an \$85,000 allocation from the Capital Construction and Equipment Purchase Contingency Account for the Department of Parks Food Service Expansion at the Blue Licks Battlefield State Resort Park. Money from the Contingency Account will be used to cover part of a cost overrun. Mr. Hintze said the Department also plans to transfer \$146,000 from the account of the original lodge project (Blue Licks Lodge-Phase I) to cover the cost overrun on the dining expansion project authorized by the 2000 General Assembly for \$750,000.

Representative Wayne asked why the \$146,000 from the original authorization was allowed to remain in an account for so long since this project was completed in 1999, and the statutes require project accounts to be closed within 30 days of completion. Mr. Hintze said there is some disagreement as to when a project is complete. When an agency moves in to a completed facility, they want to keep the project and account open to allow time for discovery of any problems. This may take several months. However, he acknowledged that the account for the Blue Licks Lodge Phase I project should have been closed in a more timely manner. At the same time, he said that having the money available to address the food service expansion was fortuitous.

Representative Wayne said it appears that what the state has done in this case is illegal. He suggested that if the Finance Cabinet was not routinely following the statutes, then perhaps they should seek changes in the statutes. Mr. Hintze said they did not think they had done anything illegal. He said it is a matter of interpretation as to when a project is considered complete.

Representative Wayne suggested that Mr. Hintze and his staff to review the issue, and provide an opinion to the committee as to whether there should be statutory changes. He said by not following the statutes, the state opens itself up to abuse by unscrupulous people. Mr. Hintze said they would be happy to review the statutes.

Senator Jackson made a motion to approve the cost overrun. The motion was seconded by Representative Marcotte and passed by voice vote. The revised project scope is \$981,000.

Chairman Haydon then introduced Mr. Roger Recktenwald, Executive Director, Kentucky Infrastructure Authority (KIA) to discuss KIA projects. Mr. Recktenwald first discussed projects recently receiving conditional project commitments from the 2020 Program and the Fund B Infrastructure Revolving Fund. The Chairman noted that any committee action taken at this meeting relates to KIA's conditional commitment letters to all projects, and that each individual project's grant assistance agreement must come before KIA and be reviewed by the committee as the project develops.

The 2020 Program is funded through the \$50 million Water Resources Development Bond Program enacted by the 2000 General Assembly with debt service to be paid from Tobacco Settlement funds. The Fund B projects are funded from Fund B loan repayments. The application process and rules for funding from the two sources are the same. Mr. Recktenwald said in April 2001, local planning councils were asked for project applications (also called project profiles). KIA electronically received nearly 1,700 applications. Over 800 projects were identified as ready to be implemented in the first two years. Conditional commitments have been made for 185 projects totaling over \$68 million. The projects will represent 90 counties, and some are multi-county projects. The conditional commitment letters asked each project sponsor to verify its project profile information by February 15, 2002.

The KIA financial staff has been assigned to projects within geographic areas with the goals of expediting projects, and coordinating with other state and federal agencies to secure funding.

Mr. Recktenwald said the program is based on Senate Bill 49 enacted by the 2000 General Assembly, and pursuant to that legislation, the program emphasizes and encourages regional projects.

Representative Marcotte commended Mr. Recktenwald for KIA's work on this project. He asked if KIA could provide information on all projects within a county. Mr. Recktenwald said they would be happy to work with him or other legislators to provide such information.

Representative Wayne asked if this program is an incentive program. Mr. Recktenwald said it is an incentive program, and they are pushing utility systems to work with others to achieve economies of scale. He pointed to what he referred to as the flagship project, in the counties of Logan and Todd where 12 different systems will be benefit from a \$70 million joint project.

Representative Wayne asked if some of the funds are being distributed to projects that already had funding in place. Mr. Recktenwald said the Logan-Todd County project is unique in that it already had funding in place prior to the program but this was necessary given the total project scope. He stressed that every program participant has to provide 50% in matching funds. Currently, the source of matching funds can be other state or federal programs. Mr. Recktenwald indicated that the utility systems may also bring an element of local funding to the table using their own funds or increasing rates to fund a portion of some of these projects. Representative Wayne said in the future he hopes KIA will not provide any funds to a project in a county that does not have comprehensive land use plan in place.

Chairman Haydon reminded members that this report only identifies conditional commitments and no assistance agreements have been submitted at this time.

Senator Jackson made a motion to approve the KIA 2020 Program and Fund B projects as submitted contingent upon receipt of the proposed assistance agreements. The motion was seconded by Senator Leeper and passed by voice vote.

Mr. Recktenwald then presented three KIA Fund E (Solid Waste Grant and Loan Fund) grants: \$65,682 to Kenton County, \$75,000 to Bell County, and an amendment of \$75,000 in additional funds to Pike County. The grants are for the Certified Clean Counties Program, and will be used to clean up open dumps.

Representative Damron made a motion to approve the Fund E grants. The motion was seconded by Senator Jackson and approved by voice vote.

Chairman Haydon called on Mr. Gordon Mullis, Executive Director for the Office of Financial Management (OFM), to present the agency's bond activity report. Mr. Mullis gave two follow-up reports for previously issued bonds.

The first report was for KIA Revenue Bonds, 2001 Wastewater Revolving Fund Program, Series G (\$12,440,000); Drinking Water Revolving Fund Program, Series B (\$6,420,000); and 2020 Water Service Revolving Fund Program, Series A (\$49,160,000). He stressed that the sale of these issues was excellent with a combined true interest cost of 4.8%.

Mr. Mullis then provided the Committee with a follow-up report on the sale of Morehead State University Consolidated Educational Buildings Refunding Revenue Bonds, Series L, dated December 1, 2001 (\$4,875,000). He explained that this refunding had a new present value savings of \$213,035.

Chairman Haydon indicated no additional action was required for these follow-up reports.

Mr. Mullis reported one new bond issue with School Facilities Construction Commission (SFCC) debt service participation for Harlan County.

Representative Marcotte made a motion to approve the school bond issue with SFCC debt service participation. The motion was seconded by Senator Leeper and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Lastly, Mr. Mullis reported one new bond issue: State Property & Buildings Commission (SPBC) Revenue Refunding Bonds, Revised Project No. 71, Second Series (not to exceed \$75,000,000) and Revenue Bonds, Project No. 76 (not to exceed \$6,000,000). Mr. Mullis said he asked that this bond issue be added to the agenda yesterday afternoon. He said his office had just confirmed that \$5,160,000 million in EDB projects have been approved and disbursed, and they wanted to include the additional funding for those projects in an issue that they are now preparing to take to market. Mr. Mullis indicated that the committee had reviewed and approved Project No. 71 last August, and the structure of that issue had not changed.

Representative Damron made a motion to approve the SPBC bond issue. The motion was seconded by Senator Leeper and passed by voice vote.

There were three locally-funded school bond issues submitted to the committee for review this month: Bourbon County, Fayette County, and Scott County. All disclosure information has been filed, and no further action on these bond issues is required.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded by Senator Leeper and passed by voice vote. The meeting adjourned at 9:50 a.m.